

**AFRICAN DEVELOPMENT REVIEW / REVUE AFRICAINE  
DE DEVELOPPEMENT**

**VOL. 22 No. 3 September / Septembre 2010**

**Introduction: Fostering Development in an Era of Financial and  
Economic Crises**

L. Ndikumana, A. B. Kamara and A. Mafusire

*pages 347-350*

---

**Revenue Mobilization in African Countries: Does Natural Resource  
Endowment Matter?**

Léonce Ndikumana and Kaouther Abderrahim

*pages 351-365*

---

**The Global Financial Crisis and Sub-Saharan Africa: The Effects of  
Slowing Private Capital Inflows on Growth**

José Brambila-Macias and Isabella Massa

*pages 366-377*

---

**The External Debt-Servicing Constraint and Public-Expenditure  
Composition in Sub-Saharan Africa**

Augustin Kwasi Fosu

*pages 378-393*

---

**Understanding the Growth of African Financial Markets**

Mihasonirina Andrianaivo and Charles Amo Yartey

*pages 394-418*

---

**Debt Sustainability and the Ongoing Financial Crisis: The Case of  
IDA-only African Countries**

Leonardo Hernández and Boris Gamarra

*pages 419-439*

---

**Unlocking Productive Entrepreneurship in Africa's Least Developed Countries**

Zuzana Brixiova

*pages 440-451*

---

**Aid and Poverty in Africa: Do Well-being Measures Understate the Progress?**

Yélé Maweki Batana

*pages 452-469*

---

## **Introduction: Fostering Development in an Era of Financial and Economic Crises**

L. Ndikumana, A. B. Kamara and A. Mafusire

---

## **Revenue Mobilization in African Countries: Does Natural Resource Endowment Matter?**

Léonce Ndikumana and Kaouther Abderrahim

*Abstract:* Natural resource endowment offers great opportunities for achieving high levels of growth and development, notably via fiscal revenue mobilization throughout the entire chain of operations from exploration to production to exports. In the case of African countries, however, resource-rich countries have not yet been able to take full advantage of their resource wealth to mobilize government revenue. In fact it appears that they have often been outperformed by their resource-scarce counterparts in this regard. Is the low revenue performance a result of distorted incentives induced by the natural resource bonanza or the lack of capacity to harness the revenue potential from the natural resource industry? This paper explores these questions and provides some empirical evidence based on data from a sample including African countries as well as countries from Latin America, Asia, and the Middle East for the period 1980–2007. The paper undertakes an econometric analysis to examine the factors that determine revenue performance in African countries from a comparative perspective, with a focus on the role of natural resource endowment. The results are consistent with the evidence from the literature, especially with regard to the role of economic structure (notably the share of agriculture in GDP), the tax base (per capita income), and trade. We compute an index of revenue performance that relates the actual revenue to the level predicted by the econometric model and we find that African resource-rich countries have performed poorly relative to their resource-scarce counterparts and compared to the oil-rich Middle Eastern countries. The paper concludes with some policy implications for African countries.

---

## **The Global Financial Crisis and Sub-Saharan Africa: The Effects of Slowing Private Capital Inflows on Growth**

José Brambila-Macias and Isabella Massa

*Abstract:* This paper uses the bias-corrected least-squares dummy variable (LSDV) estimator to examine the relationship between economic growth and four different types of private capital inflows (cross-border bank lending, foreign direct investment (FDI),

bonds flows and portfolio equity flows) on a sample of 15 selected sub-Saharan African countries over the period 1980–2008. Our results show that FDI and cross-border bank lending exert a significant and positive impact on sub-Saharan Africa's growth, whereas portfolio equity flows and bonds flows have no growth impact. Our estimates suggest that a drop by 10 per cent in FDI inflows may lead to a 3 per cent decrease of income per capita growth in sub-Saharan Africa, and a 10 per cent decrease in cross-border bank lending may reduce growth by up to 1.5 per cent. Therefore, the global financial crisis is likely to have an important effect on sub-Saharan Africa's growth through the private capital inflows channel.

---

## **The External Debt-Servicing Constraint and Public-Expenditure Composition in Sub-Saharan Africa**

Augustin Kwasi Fosu

*Abstract.* In the light of the current global financial and economic crises, how would governments in sub-Saharan Africa (SSA) allocate their budgets across sectors in response to a binding debt-servicing constraint? Within a framework of public-expenditure choice, the present paper estimates constraint-consistent debt-service ratios and employs them in a Seemingly Unrelated Regression involving a five-year panel for up to 35 African countries over 1975–94, a period preceding the Highly Indebted Poor Countries (HIPC) initiatives. While observed debt service is found to be a poor predictor of expenditure allocation, constraining debt servicing shifts spending away from the social sector, with similar impacts on education and health. The implied partial elasticity of the sector's expenditure share with respect to debt is estimated at 1.5, the highest responsiveness by far among all the explanatory variables considered, including external aid. Thus, if the social sector is to be protected, sufficient debt relief for SSA countries should be pursued.

---

## **Understanding the Growth of African Financial Markets**

Mihasonirina Andrianaiso and Charles Amo Yartey

*Abstract.* This paper examines empirically the determinants of financial market development in Africa with an emphasis on banking systems and stock markets. The results show that income level, creditor rights protection, financial repression, and political risk are the main determinants of banking sector development in Africa, and that stock market liquidity, domestic savings, banking sector development, and political risk are the main determinants of stock market development. We also find that liberalizing the capital account promotes financial market development only in countries

with high incomes, well-developed institutions, or both. The powerful impacts of political risk on both banking sector and stock market development suggest that resolution of political risk may be important to the development of African financial markets.

---

## **Debt Sustainability and the Ongoing Financial Crisis: The Case of IDA-only African Countries**

Leonardo Hernández and Boris Gamarra

*Abstract:* The ongoing financial crisis has raised concerns in many circles about a potential future wave of sovereign defaults spreading among developing countries and, therefore, the need for additional rounds of debt relief in poor indebted countries. This paper addresses this issue for a group of 31 International Development Association (IDA)-only African countries, which are in a fragile debt situation. Using the most recent debt sustainability analyses (DSAs) undertaken for these countries by the World Bank and the IMF, this paper studies the potential adverse effect of the ongoing financial crisis on the countries' debt burden indicators, as a function of the depth and length of the crisis. The latter is measured by the fall and the duration of such fall in exports revenues, and by the terms at which each country can obtain financing to muddle through the crisis period. The analysis underscores the importance of concessional financing for these countries, especially if the crisis proves to be a protracted one. This, because the likelihood of countries being able to muddle through the crisis without defaulting on their external debt decreases with the hardening of the financial conditions faced by them — alternatively, the size of the downsizing in domestic (fiscal) expenditures needed to ensure the service of their foreign debts increases with the tightening of financial conditions.

---

## **Unlocking Productive Entrepreneurship in Africa's Least Developed Countries**

Zuzana Brixiova

*Abstract:* In Africa's least developed countries (LDCs), escape from poverty and convergence to living standards of more advanced economies depends critically on structural transformation and the emergence of productive entrepreneurship that would accelerate growth and job creation. So far, however, subsistence agriculture has been the main source of employment in these countries, while a dynamic private sector in industry or high value-added services has remained elusive. Utilizing the flow approach to labor markets, this paper complements the empirical literature and numerous surveys on small and medium enterprise (SME) constraints and develops a theoretical

framework that examines the main obstacles to entrepreneurship in Africa's LDCs. The paper posits that given the persistent frictions in product and labor markets as well as skill shortages that characterize these economies, development of productive entrepreneurship cannot be left to markets alone. The policy analysis suggests that the state has an important role to play. Well-targeted government interventions including training of potential entrepreneurs and workers can help to establish more modern and highly productive SME clusters that Africa's LDCs need.

---

## **Aid and Poverty in Africa: Do Well-being Measures Understate the Progress?**

Yélé Maweki Batana

*Abstract.* In the last 15 years international aid donors to Africa have shifted their focus dramatically toward health and education; the share of social sector support in total aid rose from 33 per cent to 60 per cent from 1990–94 to 2000–2004 alone. If this aid has been effective, it is unlikely to be captured in GDP or income poverty figures. This paper uses the Demographic and Health Survey at multiple points in time to explore changes in well-being in ten sub-Saharan African countries. It compares the evolution of both assets and health which are considered as the two main dimensions of well-being. These dimensions are simultaneously estimated using the structural equation models with latent variables that have been developed in the psychometric literature. The comparisons of well-being across time in each country are based on the stochastic dominance analysis. The main results suggest that assets and health have improved during the last two decades in most of these countries. A decline in assets is observed for three countries while health deteriorates in two countries. The reduced poverty appears to be explained less by the aid than other factors in most cases.

---